



June 22, 2015: Volume 9

KAISEN RELEASES FIRST QUARTER FINANCIAL RESULTS AND GEARS UP FOR MODEST SUMMER DRILLING PROGRAM

Following an active second half 2014 where we drilled 13 new wells and reactivated 7 shut-in wells and exited the year with 1,779 barrels per day, Kaisen's first three months of 2015 (the "Quarter") was by contrast very quiet with a focus on continued operating efficiencies and optimizations. Following the precipitous fall in WTI oil prices beginning in late November 2014, Kaisen quickly responded by deferring the majority of our planned first quarter capital program, deciding rather to proceed cautiously while protecting our strong balance sheet to weather whatever severity of storm that might arise.

So far, January has proven to be the worst of the storm, testing our break even point with a funds flow loss of \$34,544 from a realized oil price of \$28.90 per barrel. Prices improved in February to \$38.90 per barrel delivering funds flow of \$425,887 (inclusive of realized hedging gains of \$127,410) and then fell back again in March to \$34.13 per barrel with funds flow of \$174,193 (inclusive of hedging gains of \$173,980). For the three months combined, Kaisen generated funds flow of \$565,538 (including hedging gains of \$301,390) from an average realized price of \$33.48. Now as we move through the second quarter of 2015, prices have improved substantially, delivering current realized prices closer to \$50.00-\$55.00 per barrel.

Furthering our lower funds flow from the price decline, Kaisen's first quarter production has seen a decline of approximately 19% over the prior quarter averaging 1,382 per barrel compared to 1,699 in the fourth quarter of 2014. As mentioned in our previous newsletter, in response to the weakening oil price, Kaisen undertook a thorough review of well level profitability which resulted in the shut-in of approximately 60 bbl/d of uneconomic production in January while at Edam, we are nearing completion on a planned upgrade to our salt water disposal ("SWD") facility to handle an increasing H2S (sour) content in our produced water from section 22. Until these upgrades are completed, we chose to shut-in approximately 280 bbl/d of production burdened with higher H2S levels in March. H2S is not uncommon in the region, however our Edam water disposal must be properly configured and equipped to protect our workers and service providers. Currently we are producing at approximately 1,000 barrels per day with anticipation of increased volumes shortly following the SWD facility completion.

Quarterly Production by Area	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13
Lone Rock (bbl/d)	556	828	529	291	421	534
Edam (bbl/d)	826	864	549	458	486	394
Other (boe/d)	-	7	26	24	35	35
Total daily average (boe/d)	1,382	1,699	1,104	773	942	963

In total, \$700,110 was invested during the first quarter towards 1 well reactivation in March (to hold a lease), general well upgrades and equipment acquisitions committed to in the prior quarter. With a continued focus on operating efficiencies and cost reductions, it is worth noting that in the face of the current quarter's production declines, Kaisen managed to further reduce operating costs per barrel over the prior quarter by 4% through the exhaustive efforts of our operations team and field crew.

FINANCIAL UPDATE

	Quarterly Results				
	Q1, 2015 (unaudited)	Q4, 2014 (unaudited)	Q3, 2014 (unaudited)	Q2, 2014 (unaudited)	Q1, 2014 (unaudited)
Financial results					
Petroleum and natural gas sales	\$4,165,694	\$9,123,917	\$7,593,071	\$5,480,037	\$5,782,300
Realized hedging gains/(losses)	\$301,390	\$771,485	(\$335,140)	(\$687,913)	(\$403,764)
Funds flow from operations ⁽¹⁾	\$565,538	\$2,753,784	\$2,510,180	\$746,809	\$727,675
Per share – basic ⁽¹⁾	\$0.04	\$0.18	\$0.20	\$0.06	\$0.06
Per share – diluted ⁽¹⁾	\$0.04	\$0.17	\$0.16	\$0.06	\$0.06
Net earnings / (loss)	(\$606,951)	\$403,377	\$1,617,717	(\$104,200)	(\$1,853,544)
Per share – basic	(\$0.04)	\$0.03	\$0.13	(\$0.01)	(\$0.16)
Per share – diluted	(\$0.04)	\$0.03	\$0.11	(\$0.01)	(\$0.16)
Capital Expenditures	\$700,109	\$2,510,886	\$8,486,501	\$1,535,661	\$2,460,367
Net debt	\$3,516,419	\$3,381,845	\$3,619,743	\$5,282,236	\$4,358,738

Outstanding – basic	15,420,029	15,420,049	15,420,029	11,911,922	11,895,122
Outstanding – diluted	18,649,028	18,649,028	18,649,028	14,735,921	14,719,113
Weighted average– basic	15,420,029	15,420,029	12,865,212	11,911,922	11,895,122
Weighted average– diluted	15,420,029	16,123,473	15,390,767	14,735,921	11,895,122
Operating Netbacks					
Sales price	\$33.48	\$58.40	\$74.76	\$77.86	\$68.37
Royalties	(\$6.60)	(\$14.82)	(\$19.14)	(\$18.84)	(\$16.42)
Saskatchewan surcharge tax	(\$1.84)	(\$2.97)	-	-	-
Operating expenses	(\$16.32)	(\$17.03)	(\$19.48)	(\$29.09)	(\$24.73)
Transportation expenses	(\$2.26)	(\$2.28)	(\$2.09)	(\$2.62)	(\$2.19)
Netbacks (before hedging)	\$6.46	\$21.30	\$34.05	\$27.31	\$25.03
Realized gain/(loss) on hedging	\$2.42	\$4.94	(\$3.30)	(\$9.77)	(\$4.70)
Netbacks (after hedging)	\$8.88	\$26.24	\$30.75	\$17.54	\$20.33
G&A	(\$4.88)	(\$5.42)	(4.88)	(6.73)	(11.23)
Cash interest costs	(\$0.28)	(\$0.11)	(0.33)	(0.65)	(0.35)
Current tax expense/recovery	\$0.84	(\$2.57)	-	-	-
Corporate Netbacks	\$4.56	\$18.14	25.54	10.16	8.75

(1) The reader is referred to the section - "Non-IFRS Measurements" in the annual financial statements.

(2) The reader is referred to the section - "Oil, Natural Gas Liquids and Natural Gas Conversions to Boe's" in the annual financial statements.

Commensurate with a 43% decline in realized prices coupled with a 19% decrease in production during the Quarter, revenues (before hedging) decreased by 54% over the prior quarter. However in direct correlation to the weaker realized oil price, the Company's hedging contracts generated a realized gain of \$301,390 (\$2.42 per boe) for an average realized heavy oil price (net of hedging) of \$35.90 per boe, 43% lower than the prior quarter of \$63.34.

Operating netbacks for the Quarter (before hedging) averaged \$6.46 per boe, 70% lower than the \$21.30 per boe recorded in the prior quarter due to the decline in oil prices. On a positive note, Kaisen's continued focus on cost reductions produced a \$0.71 per barrel reduction in operating costs, generating operating costs per barrel at the low end of the range for our peer group. Overall, the Quarter's production and realized netbacks (including hedging gains) generated field level profits of \$1,104,375 compared to \$4,098,588 in the prior quarter. Considering the bleak commodity price environment of the first quarter, we are pleased to report positive funds flow while many of our peers suffered losses.

On the administrative front, G&A expenses averaged \$4.88 per boe for the Quarter, down 10% from the prior quarter. On the income tax front, Kaisen realized a current income tax recovery of \$103,885 which partially offsets the prior period current tax expense of \$401,236. We expect this to further decline through the balance of the tax year (ending September 30, 2015) due to lower taxable income on account of lower oil prices.

From a debt leverage perspective, our net debt increased slightly over the prior quarter by \$134,574 ending at \$3.5 million. Our current debt level following this tumultuous period demonstrates the continuing strength of our balance sheet with only 31% drawn on our \$11.1 million lending base. Using current June'15 pricing, our debt to current run rate funds flow ratio is approximately 0.5x, a very low level by contrast to many of our peers that operate at levels closer to 1.5-2.0x.

For further details on our first quarter operations and related financial results, please refer to the accompanying unaudited financial statements and management discussion and analysis for the three months ended March 31, 2015.

OUTLOOK FOR SECOND HALF OF 2015

As we near the end of the first half of 2015, we are optimistic that much of the commodity price storm has subsided. In its wake, we expect to see a current June realized heavy oil price of approximately \$55.00 per barrel, approximately 33% lower than the \$82.00 per barrel realized in June of 2014 but significantly stronger than the \$28.90 per barrel realized in January of this year. Not bad when considering the current US WTI price of \$60.00 is down 43% from \$106.00 per barrel over the same period. We have a narrowing WCS price differential to thank for the strong heavy oil price recovery compared to its lighter oil counterpart. The Western Canadian Select ("WCS") discount, our heavy oil price index, has narrowed significantly to below US \$8.00 per barrel, compared to US \$22.00 in June of 2014. The dramatic improvement in WCS pricing relative to WTI has been spurred by much improved transportation infrastructure (both pipelines and rail) for exporting heavy oil to US refineries in the Gulf Coast where the appetite for heavy supplies has increased on account of continued refinery capacity increases. We view the future for heavy oil to be very positive on account of these and other key indicators which suggest continued strength in heavy oil prices relative to WTI for the foreseeable future.

For the second half of 2015, Kaisen has planned a conservative \$5.6 million capital program to kick off this summer where we plan to drill 4 vertical wells (2 Lone Rock, 2 Edam) and 2 horizontal wells at Lone Rock. This program includes approximately \$700,000 of previously mentioned facility upgrades scheduled for completion this summer. We hope to see production adds of approximately 500

barrels per day along with the return of currently shut in production from March which together should deliver a second half production average between 1,300-1,400 barrels per day.

We will continue to be patient and cautious as we move through the remainder of 2015, being flexible to adapt to market fluctuations and opportunities as they arise while always maintaining optionality to capitalize on opportunities as they may arise. We view this period following the stormy first half of 2015 to be ripe with opportunity. Lower service costs, driven from the storm, will lead to greater efficiencies on our capital program and ongoing operating costs, while the increased financial pressures of numerous operators in the area may lead to enhanced opportunities to expand our land position at attractive economics.

All things considered, we are happy with the position we are in at this point in the year and we look forward to continued operational successes as we move forward. And as always, we remain mindful and attentive to the eventual opportunity to delivery liquidity to shareholders as and when the opportunity arises.

KAISEN EXECUTIVE MANAGEMENT TEAM:

Cameron King
President & CEO

Jeff Holmgren
Senior VP & CFO

Chris McGinnis
VP Operations & Engineering

Andy Kramchynski
VP Geology